An Analytical Study on Fiscal Health of Indian States

Synopsis

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1.0 Background

India is a federal country where power and responsibility for taxation and expenditure are divided between union and state governments. In the Indian federal set up, states play an important role in accelerating and sustaining growth. The Indian constitution assigns important responsibilities to states in many sectors such as agricultural development, infrastructure, poverty alleviation, water supply and irrigation, public order, public health, and sanitation. Furthermore, they have concurrent jurisdiction in several areas like education, electricity, economic and social planning, and family planning. In view of the larger responsibilities assigned to the states, their expenditure accounts for a substantial portion of the government expenditure is contributed by union and state governments.

In India, federal system is the most important pillar for sharing taxation and expenditures between union and state governments. Union government has more power to tax, whereas state governments have limited taxation power and greater expenditure responsibilities leading to union – state disparities, called as vertical imbalances, and inter – state disparities, known as horizontal imbalances. According to Rao (2017), union government collects around 63–64 percent revenue while expenditure is only about 43 percent, contrarily, state governments collect 36–37 percent revenue and incur approximately 57 percent expenditures. To reduce fiscal imbalances, the constitution of India empowers union and state governments to share tax revenues called as tax devolution and make inter-governmental transfers in the form of grants-in-aid and centrally sponsored schemes as per recommendations of the Finance Commission and allows state governments to borrow with the approval of union government and within limits prescribed under Fiscal Responsibility and Budget Management (FRBM) Act, 2003.

The comparative position across countries reveals that in India the share of aggregate states' expenditure in government sector expenditure is higher than that in several other countries such as Australia, Denmark, Argentina, USA, and Germany (World Bank, 2005). Indian states are heterogeneous in terms of their geographical features, population, area, natural resources, and socioeconomic characteristics. Moreover, they are uneven in their expenditure, revenue, and fund allocations (or requirements for central transfers). The efficiency of state governments varies; some

utilize their funds efficiently, and some do not. However, growing expenditure over the years has increased pressure on state governments to borrow more; as a result, their fiscal health has weakened (Akram and Rath, 2019).

The data on states finances indicate that during the periods 1990-91 to 1999-00 and 2000-01 to 2009-10 most of the Indian states enjoyed budget surpluses. This was due to implementation of FRBM legislation and other fiscal consolidation measures, such as the debt consolidation and waiver facility, and the medium-term fiscal reform programme through debt swap scheme. These reforms targeted the fiscal deficit, expenditure, and debt level across states. However, since 2010-11 many states are again experiencing high budget deficit, high spending, and low revenue. Rao (2017) while drawing inferences from primary, revenue, and fiscal deficits, and the combined fiscal deficit of the central and state governments observed that the fiscal deficit in Indian states is higher as compared to economic growth, except in a few years, particularly during the mid-2000s. Although, fiscal deficits declined from the beginning of 2000 until the global financial crisis period. It has sharply increased from the post–global financial crisis period. He mentioned that if this trend continues, the overall fiscal performance of states will deteriorate, and they will face long-term sustainability and economic growth issues in near future.

Rising expenditure at states level have been a primary concern of fiscal policy now-a-days. Indian states rely mostly on fiscal transfers/ debt, along with their own revenue generation through limited taxes and non-tax sources. Thus, they may end up in weak fiscal health or fiscal unsustainability, which prevents all fiscal consolidation measures (Reddy and Reddy, 2019). This necessitates serious examination of fiscal sustainability particularly in states where debt stands at relatively high levels. In a federal country like India, state governments cannot accumulate debt indefinitely without consequences, despite partial help from the Union government (Fincke and Greiner, 2011). High debt levels restrict the government's choices in deciding tax and non-tax sources and issuing debt to correct the deficit.

2.0 The Problem

Fiscal position plays a crucial role in every economy at centre as well as state governments' level. Major parameters which play a prominent role in fiscal prudence are revenue deficit, fiscal deficit,

primary deficit, and public debt. Revenue deficit, the excess of revenue expenditure over revenue income or receipts in a financial year happens due to the insufficiency of the government's funds to meet the expenditure. Fiscal deficit is the excess of total expenditure over total income or receipts. While fiscal deficit represents government's total borrowings including interest payments, primary deficit shows the amount of borrowing excluding interest payments. Governments normally resort to public borrowing when their expenditure exceeds revenue; but high public debt beyond tolerable or sustainable level, entails high risk of entering into debt trap. Saxena and Shanker (2018) in a study mentioned that although debt helps to finance productive investment and so contributes to economic growth, but, beyond a certain level, additional debt is likely to hamper economic growth.

State governments can promote investment through both direct and indirect channels. The direct channel involves spending on physical infrastructure and human capital. The indirect channels act by crowding in private investment, promoting good governance, and attracting foreign direct investment, especially into technology; telecommunication; banking, financial services and insurance; retail and consumer facing services. Since these sectors are also major job creators, it is important for the state governments to create a congenial policy environment for them to thrive (HBL, 2022). Focusing on importance on capital expenditure, Rangarajan and Srivastava (2022) viewed that higher capital expenditure not only creates additional demand immediately but also paves the way for further growth and durable recovery.

Fiscal risk is confronting the state governments in India and stretched its finances as indicated by the slowdown of state's own tax revenue, a high share of non-developmental expenditure on administrative services, salaries, pension, interest payments, rising burden on subsidy and freebies. Consequently, revenue deficit relative to fiscal deficit increased disproportionately in every state. Although, there is no precise definition of freebies, it is essential to differentiate them from public/ merit goods, expenditure on which brings economic benefits, such as the public distribution system, employment guarantee schemes, states' support for education and health (Singh, 2022). Furthermore, free public transportation, free water, provision of free electricity, waiver of pending utility bills and farm loan waivers are often recognised as freebies, which potentially compromise credit culture, warp prices through cross-subsidisation disintegrating the incentives for private investment and dissuade

work at the current wage rate which leads to a fall in labour force contribution. Some freebies may reap benefits for the economically weaker section if rightly targeted with minimal leakages, but their advantages must be assessed against the huge fiscal costs and inefficiencies they create by distorting prices and misallocating resources. Moreover, the provisions of free electricity and water are known to accelerate environmental degradation and depletion of water tables.

As per the latest accessible data from the Comptroller and Auditor General of India (CAG), the governments' expenditure on subsidies (including freebies) in nineteen states has grown at 12.9 percent and 11.2 percent in 2020-21 and 2021-22 respectively. Correspondingly, the portion of subsidies in total revenue expenditure by states has also increased from 7.8 percent in 2019-20 to 8.2 percent in 2021-22. At a disaggregated level, there are stark variations among states. For instance, Jharkhand, Kerala, Odisha, Telangana, and Uttar Pradesh are the top five states with the largest rise in subsidies over the last three years. States like Gujarat, Punjab and Chhattisgarh spend more than 10 per cent of their revenue expenditure on subsidies (Mukherjee et al., 2022). Subsidies, however, are known to crowd-out resources from other useful purposes (Gopalan, 2013).

3.0 Review of Literature

Fiscal position of the government plays a pivotal role in every economy. The fiscal condition decides whether there is a mounting level of debt or whether the country has the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position. In the existing literature, a few studies have focused on different aspects of fiscal health in different economic settings. These include fiscal performance, fiscal sustainability, debt sustainability, fiscal risk and policy perspectives. Reviews of some prominent studies are presented below.

3.1 Studies on fiscal performance

A country needs to be strong in its fiscal performance at the subnational level by implementing sound budgeting that consists of fiscal deficit, quality expenditures, revenue efficiency, and debt sustainability (Dabla – Norris et al., 2010). The fiscal performance or fiscal health of the states is dynamic and changes over times in response to changes in fiscal rules; fiscal rules are considered as rider of fiscal performance (Kopits and Symansky, 1998). Easterly and Schmidt – Hebbel (1993)

examined fiscal adjustment and macroeconomic performance in developing countries focusing on fiscal indicators; and mentioned that fiscal policy is closely related to the macroeconomic performance of developing countries.

Hagen and Harden (1996) investigated the fiscal discipline based on the budgetary process analysis in EU (European Union) countries; they indicated that strong budgetary process enhances fiscal performance. Rodden (2002) viewed that sound fiscal performance of subnational governments can be attained when the centre puts restrictions on the borrowing of subnational governments as they have the wide-ranging power taxing and borrowing autonomy. Mohanty and Mishra (2016) in a study mentioned that states' fiscal performance is more crucial than central government due to the fact that maintaining the states' fiscal performance is essential for the overall nation's fiscal performance.

Reddy and Reddy (2019) stated that states vary in terms of revenue collection, expenditures, debt, and deficit level due to their tax-raising capacity, demographic, and geographical characteristics; this creates situation of horizontal imbalance or inter-state disparities. Central government generally solves these issues by providing relatively more transfers to the lower per capita income states. However, transfers do not entirely correct poor states disabilities as richer states spend a more substantial part of their income as compared to poor states. Thus, states compete with each other to get more transfers from the union government.

Addressing the fiscal performance at the subnational level has become a crucial point due to regional imbalances in terms of revenue collection, expenditure, debt, and deficit in India. Dholakia (2005) in a study on fiscal performance considered multidimensional composite index which include four major indicators, viz., deficit index, debt index, revenue efficiency index, and expenditure quality index, and eight minor sub-indices. Akram and Rath (2021) included one newer sub-index namely debt sustainability index in Dholakia’s model.

3.2 Studies on fiscal sustainability

Fiscal sustainability is extensively gazed as a proficiency of the government to sustain its current spending and taxation in the long run without menacing government solvency or liabilities or vowed expenditures (Hamilton and Flavin, 1986; O'Connell and Zeldes, 1988; Trehan, and Walsh, 1991; and Bohn, 1995). The analysis of fiscal sustainability assumed importance in India since 1980s when sharp

fiscal deterioration both at national as well as sub-national levels was observed (Jadhav, 2010). Kurian (1999) observed that the failure in containing wasteful expenditure and backwardness to augment additional resources resulted in deterioration of State finances.

Rao (2000) noticed a weak states' finance after 1990–91 because of the low tendency of central transfers and weak expenditure management by state governments. Bajpai (2002) discussed two important facets of fiscal imbalances in India. First, outpacing of revenue growth rate by expenditure growth rate considerably reduced the resources available for public investment, and second, the increasing diversion of household savings to meet public consumption requirements not only resulted in the expansion of public debt to unsustainable levels, but also reduced the resources available for private investment.

Anand et al. (2002) argued that weak states' finance deteriorates the overall Indian public finance and affects overall fiscal sustainability. Rao (2005) observed that despite faster growth in revenue of states as compared to centre, states' fiscal dependence on centre upsurged because of increase in expenditure at a faster rate than revenue. Raut (2011) noticed that the revenue expenditure of states is dominated by committed expenditures such as interest payments, administrative services, and pension. Higher committed expenditure resulted in deficit on the revenue account of the states; consequently, resources borrowed through market and other sources had been utilized to finance revenue deficits rather than financing infrastructure in the 1980s and 1990s which was reflected in lower capital outlay as a ratio to GDP.

Das (2015) noticed that states like Kerala, Punjab and West Bengal were fiscally unsound during the late 1990s to early 2000s due to an increase in revenue deficit that has pulled the fiscal deficit as a result of an increase in debt stock. In terms of per capita revenue and expenditure, Akram and Rath (2020) observed that state's per capita revenue variation is similar to per capita gross state domestic product variations; this arises from a different revenue generation capacity of states. Therefore, a sound fiscal performance would help the states achieving high growth with macroeconomic stability.

The Constitution of India permits state governments to obtain finances from varying external sources under a ceiling and with central government approval. Indian states rely mostly on debt, fiscal transfers along with their own revenue generation through limited taxes and non-tax sources. Thus,

they may turn out to be in weak fiscal health or fiscal unsustainability, which prevents all fiscal consolidation measures (Reddy and Reddy, 2019).

Bajpai (2002), Anderson (2010) and Sood et al. (2022) put forth the need for debt reduction plan integrated into a comprehensive economic policy. They emphasized the need for lowering the revenue deficit, fiscal consolidation and debt reduction as a part of fiscal policy and strategy. Bajpai (2002) suggested reducing the fiscal deficit mainly by lowering the revenue deficit. Anderson (2010) stated that countries should establish a credible deficit reduction plan which may have positive effects on consumers, businesses, and financial markets, and lead to the path of fiscal consolidation. Jadhav (2010) identified six indicators of fiscal sustainability, viz., crossover of GDP and debt growth rates, stability in fiscal condition, adequacy of primary surplus, debt service burden, asset – liability position, and the cost of borrowing vis-à-vis return on assets. Sood et al. (2022) examined the issues in financing and sustainability of the outstanding debt and suggested for strategy formulation to build buffers to secure budgetary targets.

3.3 Studies on debt sustainability

Researchers are of the view that investigation into public debt sustainability provides crucial debt trap information. Several studies emerged in the economic literature focused on sustainability of public debt. Rangarajan, Basu, and Jadhav (1989) discussed two layouts for financing the deficit, first, debt financing scenario, and the second monetary-financing scenario. Under debt financing scenario, they deduced that the higher interest burden may invariably lead to a squeeze on budgetary capital outlays, thereby stifling economic growth. In monetary-financing scenario they stated that it is likely to set in motion a vicious circle of debt which leads to larger deficit, higher monetary financing, and greater inflation leading again to a huge deficit.

Abyad and Ostry (2005), Haber and Neck (2006), Greiner and Kauermann (2008), Fincke and Greiner (2011), and Mahdavi (2014) followed Bohn model and its extended versions to validate empirically whether public debt policies in different countries are sustainable or not. Renjith and Shanmugam (2018) also emphasized the use of Bohn approach to examine debt sustainability. They also mentioned that if the problem of debt aggravates, the government should make efforts to increase primary surplus, else public debt will not be sustainable.

Considering the need for sustaining debt, Das (2016) suggested a popular way to stabilize high debt to GDP ratio by creating primary surplus through restrictive fiscal policies at least temporarily by following the neoclassical solution. Although, he mentioned that it is not an easy task for sub-national governments in India to generate a primary surplus even in the short run, because subnational governments at state level have limited power to raise tax revenues while they have to bear a lot of expenditure liabilities.

Referring to the intricacies of national debt, Saxena and Shanker (2016) in a research paper mentioned that debt for productive investment within reasonable levels enhances economic growth, but beyond certain levels additional indebtedness reduces growth. The mounting burden of debt servicing and debt crisis motivates capital flight, a paradoxical situation in which resources are flowing out of developing countries. Reinhart and Rogoff (2008) observed that countries relying excessively on short-term borrowing to finance their growing debt levels are primarily vulnerable to sudden and unexpected financial crises. They suggested that traditional debt management should be the priority of the public policy concerns.

Blanchard (2022), while discussing unsafe level of debt mentioned that the level of debt should not be calculated using debt to GDP ratio, rather ratio of debt service to GDP must be applied. Sood et. al (2022) examined three main indicators of debt sustainability; first, the real interest rate should be less than real GDP; second, primary balance should be positive; and third, the cost of debt servicing proxied by the ratio of interest payments to revenue receipts should decline over time.

3.4 Studies on fiscal risk analysis

Fiscal risks emerge from macroeconomic distress and the realisation of contingent liabilities which occur due to government loan guarantees, or pervading public expectation that the government will bailout the distraught entities. Globally, the most general sources of contingent liabilities are state-owned enterprises, troubled financial institutions, subnational governments, public-private partnerships and private non-financial companies as the government has to rescue these entities in the event of a default even without any direct stake or ownership in the defaulting entity (IMF, 2016). Kaur el al. (2018) observed that with many states assuming additional debt liabilities as part of financial and operational restructuring of state power distribution companies, there is an inherent risk

in terms of debt servicing capacity and soundness of fiscal performance parameters of states.

Bajpai (2002) discussed several risks associated with high fiscal deficits; first, budget deficits can spillover into macroeconomic instability and imperil national saving rates thereby reducing overall aggregate investment and jeopardizing the sustainability of high growth; second, continuing large budget deficits, even if they do not spillover into macroeconomic instability in the short run, may require higher taxes in the long-term to cover the heavy burden of internal debt; and third, high tax rates may place a country at a significant disadvantage relative to other fast-growing countries.

To assess debt sustainability and fiscal stress, the IMF's fiscal risk analysis and management framework administers a fiscal reaction function (FRF) which assesses solvency of an economy by associating the primary balance to debt, while reckoning for current economic situation to articulate the impact of business cycle variations. (IMF, 2016; Bohn, 1998; Adams, et al., 2010; Tiwari, 2012; Kaur, et al., 2018). When the primary balance (relative to GDP) propels in a similar direction as public debt (relative to GDP), it suggest that surging debt ratios lead to greater primary surpluses which can further be used for repayment and servicing of debt implying debt sustainability.

In view of Mukherjee et al. (2022) fiscal conditions among states in India are showing alarming signs of building stress. The deceleration in own tax revenue, predominance of committed expenditure and growing subsidy burden have elaborated state government finances exacerbated by Covid – 19. The debt stock is no longer sustainable for the five most indebted states, as the amplification of debt has outpaced their GSDP growth in the last five years. New sources of risks has surfaced in recent past which comprises of relaunch of the old pension scheme by some states, expanding contingent liabilities, increasing expenditure on non-merit freebies, and the ballooning delay of power distribution companies warranting strategic remedial measures. In the light of scenario discussed above it is suggested that the state governments must restrict their revenue expenses by cutting down expenditure on non-merit goods and put efforts to stabilize debt levels. Further, there is need to increase share of capital outlays in the total expenditure to create long-term assets, generate revenue, and boost operational efficiency.

4.0 Rationale of Study

Sharp deterioration in state finances in the last decade as evidenced by sharp increases in fiscal,

primary, and revenue deficits, increases in their indebtedness and contingent liabilities, and decline in capital and maintenance expenditures has been a matter of serious concern to policymakers. Research on states' fiscal performance is gaining more attention than the central government finance in recent years due to the fact that maintaining the states' fiscal performance is essential for nation's overall fiscal performance. Kopits and Symansky (1998) viewed that fiscal performance or fiscal health of the states is dynamic and change over time in response to change in fiscal rules and policy; these are riders of fiscal performance of states as well as centre. It is also believed that a large and persistent fiscal deficit occurs when the sub-national governments are largely dependent on the central transfers (Rodden, 2002). From policy perspective, Akram and Rath (2019) mentioned that it is imperative for state governments to revisit their expenditures and minimize non-developmental expenditure, particularly in those states where fiscal sustainability is weak.

In the process of fiscal health analysis, it is important to identify the potential sources and nature of fiscal risks, achieve quantification of fiscal risk and recommend suitable risk management practices for adoption (IMF, 2016). The major macroeconomic risks facing the state governments in India currently arise from uncertainties surrounding the evolving Covid situation, spillovers from the Russia-Ukraine war operating through high global food and commodity prices, and the synchronized monetary tightening by central banks across the world. Apart from these macroeconomic shocks, the other potential sources of fiscal risk for the Indian states stem from declining own tax revenue, increase in expenditure following growing preference for distribution of freebies, relaunch of the old pension scheme, increased frequency of natural disasters, realisation of government guarantees extended to state-owned enterprises and rising over-dues of loss-making power distribution companies (Mukherjee et al., 2022).

Though, many researchers in the past have highlighted issues related with fiscal performance, fiscal sustainability, debt sustainability, fiscal risk separately at national and sub-national level in different economic settings, to the best of researcher’s knowledge, by now, no comprehensive and scientific study is available on changing phase of fiscal health of Indian states. Addressing the fiscal performance at state level seems to be a vital area due to regional bias and disparities in terms of revenue collection, expenditure, fiscal deficit, and mounting debt in some of the Indian states. It is also

crucial from a country's fiscal policy point of view. Proposed research work, besides scrutinizing intricacies and trajectory of weakening fiscal health of selected Indian states, aims to delve deeper into analysis of fiscal sustainability, debt sustainability, and fiscal risk assessment of selected states with weak fiscal position. The study will also investigate the effectiveness of fiscal reforms at state level and propose policy measures for improving fiscal health of Indian states.

5.0 Research Objectives

Proposed study aims to accomplish following research objectives.

1. To analyze trends in fiscal finances in selected Indian states.
2. To carry-out state-specific assessment of fiscal performance and imbalances.
3. To assess fiscal and debt sustainability of selected Indian states.
4. To carry-out fiscal risk analysis of selected Indian states.
5. To suggest policy measures for improving fiscal health of Indian states.

6.0 Research Methodology

6.1 Sample

Although, average GFD-GSDP ratio of Indian states before Covid pandemic (during FY 2011-12 to 2019-20) was lower than 3 percent, ceiling prescribed under FRBMA, this ratio was 3.5 percent in Andhra Pradesh, Kerala, Punjab, and Rajasthan. Key fiscal indicators of Indian states for FY 2020-21 (excluding states in special category status and union territories) are presented in table – 1.

Table – 1: Key Fiscal Indicators for FY 2020-21

Percent to GSDP

State	GFD	RD	PD	Debt		State	GFD	RD	PD	Debt
East India						**South India**				
Bihar	5.1	1.9	3.0	38.7		Andhra Pradesh	5.4	3.5	3.5	34.8
Jharkhand	5.0	1.0	3.0	36.3		Tamil Nadu	5.2	3.4	3.2	31.5
Chhattisgarh	4.5	2.0	2.9	28.6		Telangana	5.1	2.3	3.3	28.2
West Bengal	3.4	2.3	0.8	38.2		Kerala	5.1	3.2	2.5	38.9
Odisha	1.8	-1.7	0.6	26.5		Karnataka	3.9	1.1	2.6	24.4
West India						**North India**				
Rajasthan	5.9	4.3	3.4	40.6		Punjab	4.2	3.2	0.8	48.7
Madhya Pradesh	5.1	1.9	3.5	29.8		Haryana	3.8	3.0	1.5	32.5
Maharashtra	2.6	1.5	1.3	20.2		Uttar Pradesh	3.3	0.1	1.0	36.4
Gujarat	2.5	1.4	1.0	22.2						

Note: States in special category status are Arunachal Pradesh, Assam, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, and Uttarakhand; and the union territories in India

are Andaman & Nicobar Islands, Chandigarh, Dadra & Nagar Haveli, Daman & Diu, Delhi, Jammu & Kashmir, Ladakh, Lakshadweep, and Puducherry.

Source: State Finances: A Study of Budgets (2022-23), Reserve Bank of India.

Based on above information, researcher has planned to include top two states from each region with high gross fiscal deficit (GFD) to gross state domestic product (GSDP) ratio, viz., Bihar, Jharkhand, Rajasthan, Madhya Pradesh, Andhra Pradesh, Tamil Nadu, Punjab, and Haryana in the sample.

6.2 Duration of Study: FY 2000-01 onwards

6.3 Data Source: Research papers, working papers and technical reports, States' Budget Documents, Economic Surveys, Status Reports, Reports on Currency and Finance (RBI), Reports of Finance Commissions, RBI Bulletins, database of Reserve Bank of India (RBI), Ministry of Finance (GoI), and Centre for Monitoring Indian Economy (CMIE).

6.4 Analytical Tools: Multidimensional composite index (MCI), Fiscal performance index (FPI), Data envelopment analysis (DEA), Fiscal sustainability index (FSUI) based on Inter-temporal budget constraint (IBC) approach, Debt sustainability index (DSUI), Risk quantification and stress testing through fiscal reaction function (FRF), and Trend analysis.

6.5 Methodology:

1. The trends in fiscal finances, viz., capital and revenue expenditure, tax and non-tax revenue, public debt, central government transfers and subsidies, fiscal deficit, revenue deficit, and primary deficit will be reviewed through ratios and trend analysis.
2. The state-specific assessment of fiscal performance will be done through multidimensional composite index (MCI) proposed by Dholakia (2005), fiscal performance index (FPI) and data envelopment analysis (DEA). MCI comprises of deficit Index (DFI – revenue deficit to GSDP, and gross fiscal deficit to GSDP), debt index (DBTI – debt stock to GSDP, interest payments to revenue receipts), revenue efficiency index (RVEI – state own tax revenue to GSDP, state own non-tax revenue to GSDP), and expenditure quality index (EXQI – development revenue expenditure to revenue receipts, development capital expenditure to revenue receipts, and revenue spending to capital outlay ratio).

3. Fiscal sustainability of selected states will be assessed through fiscal sustainability index (FSUI) based on inter-temporal budget constraint (IBC) approach, and debt sustainability will be examined through debt sustainability index (DSUI). DSUI considers difference between the GSDP growth rate and the growth in debt stock (DSI), and the difference between the GSDP growth rate and average cost of borrowing (RSI).
4. Fiscal risk assessment of selected states will be done through risk quantification and stress testing that will be done through fiscal reaction function (FRF) suggested by IMF. FRF assesses solvency by linking the primary balance to debt.
5. Based on findings of study, the researcher will make efforts to suggest some pertinent measures that may help government at central and state level in developing policies to improve fiscal health and achieving high growth with macroeconomic stability.

6.6 Software to be used: MS Excel and EViews 12.0

6.7. Expected Implications

Proposed study will identify the potential sources and nature of fiscal risks, achieve quantification of fiscal risk and recommend suitable risk management practices for adoption. This study will also highlight recent instances such as distribution of freebies and dominance of unwanted expenditure that hampers the fiscal position of Indian states and suggest framework for balancing debt and fiscal situation of the government. In nutshell, the study will have implications for policymakers related to fiscal health of state governments, thus paving the way for the overall growth of the country.

7.0 Chapter Plan

Chapter – 1: Introduction

Chapter – 2: Review of literature

Chapter – 3: Trends in fiscal finances of Indian states

Chapter – 4: Assessment of fiscal performance of Indian states

Chapter – 5: Fiscal and debt sustainability of Indian states

Chapter – 6: Fiscal risk analysis of selected Indian states

Chapter – 7: Conclusion and Suggestions

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